



July 2000
Volume 1, Issue 3

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Department of Revenue
Property Tax Division
P. O. Box 47471
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Property Tax Review



... is Here and A New Year Begins

By Sandra Guilfoil, Assistant Director

State agencies work off a fiscal year that begins July 1 and ends June 30. So, essentially, we have just celebrated our fiscal "New Year." It is a time when we analyze how well we accomplished our goals for the prior year and develop a whole slew of resolutions for the coming year.

The beginning of this year is looking a lot like last year because we are all, once again, involved in the analysis of Initiatives that are being presented to the voters in November. Last year we had one property tax Initiative to address. This year we started out with several. Looks like we're currently down to one – I-722 - and, like last year, we currently have more questions than answers! We learned from prior experiences that it is very helpful to know what questions you are asking. It allows us to accumulate the information and concerns and compile our best answers. Please feel free to contact any of us here at the Department with questions.

We'll add them to our list and do our best to get answers back in a timely manner.

It is our goal to provide you with a 'Question and Answer' document similar to the one we put out on I-695. Expect to see this at the Assessors' Conference in Vancouver.

While we don't have many answers yet on the Initiatives, this newsletter does include some discussion and information on several issues that have come up in the past months:

- Are detached garages included as part of the three-year remodeling exemption in RCW 84.36.400?
- Agri-burning
- Assessment of cell towers
- Sales audit update
- Irrigation districts
- New Property Tax Advisory

And now...enjoy your reading!♦



Are Detached Garages Exempt?

By Jim Winterstein and Kim Qually, Tax Policy Specialists

In the Rules In Progress section of April's newsletter, we reported on the recent adoption of the amended rule on the home improvement exemption. We actually hadn't heard much response to this article, but the topic did come up at the Yakima Assessor's Conference. Specifically, the question was raised whether attached garages, but not detached garages, were eligible for this exemption.

RCW 84.36.400 grants a property tax exemption for three assessment years to "any physical improvement to single family dwellings upon real property." Are detached garages included as part of this exemption? – We believe the answer is 'No'.

Legislative Background: The law was passed in 1972 apparently to "stimulate

home improvement" and provide jobs. (See revised fiscal note for EHB 139, dated February 3, 1972, and the reference in the House floor debate to "Jobs Now.") This law was offered on the floor of the House as an amendment to a bill dealing with assessor appraisal practices. The amendment was initially

Are detached garages included as part of this exemption? – We believe the answer is 'No'.

broadly worded to apply to "any physical improvement *upon real property*." There was some floor debate regarding questions about the application of the proposed amendment to improvements of commercial property and to the improvement of irrigation ditches. Subsequently, a proposal to amend the bill to read, "any physical improvement upon [a] single family residence" was made, but not adopted. However, in the Senate, the language of the bill was amended to read, "any physical improvement to *single family dwellings* upon real property," and the bill was passed and became law with that wording. There have been no subsequent amendments.

Rule Revisions: The intention of the Department's most recent revision to the rules which apply to this statute and this particular issue (WAC 458-16-080 and 458-16-081) was to clarify and simplify the language. No significant change from previous wording of the rule, with respect to this issue, was made. The previous rule (WAC 458-16-080), adopted in 1975, defined "physical improvement" and specifically provided that the term includes:

"...the addition of, or repairs to, garages, carports, patios or other improvements *attached to* and compatible with similar dwellings, but shall not include swimming pools,

outbuildings, fences, etc., which would not be common to or normally recognized as components of a dwelling unit."

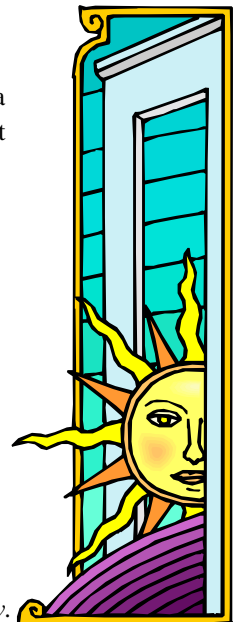
The new (amended) rule also defines "physical improvement," primarily in terms of adding value to an existing single family dwelling and additionally states as follows:

"...(i) The term includes the addition of a garage, carport, patio, or other improvement *to the dwelling* that materially adds to its value.

(ii) The term does not include a swimming pool, outbuilding, fence, landscaping, barn, shed, shop, or other item that enhances *the land* upon which the dwelling stands, but is not common to or normally recognized as a structural component of a single family dwelling."

This statute and the related rule deal with a specific exemption from property taxation. As an exemption, the law must be implemented so as not to extend the exemption beyond what the Legislature specifically authorized. In this case, the law is a bare-bones law without much definition. But to include detached garages would be a broad construction of the law and such a construction is not authorized by case law.

(Note: The State Board of Tax Appeals has construed this law and rule on several occasions and has endorsed a narrow construction in at least two cases, *Michael Zelinski v. Snohomish County Assessor*, BTA No.



County Requests for Assistance

By David Saavedra, Program Coordinator

Don't forget to submit your written requests for 2001 advisory assistance to Sandy Guilfoil before September 29, 2000. A reminder letter was mailed to each county assessor on July 17th. The Department is currently reviewing its workload requirements for 2001 and prioritizing our limited resources to meet anticipated needs. If you will be needing assistance, your timely response would be a help in deciding our workloads. ♦

47226 (1995); and *Darrell Merkel v. King County Assessor*, BTA No. 49737 (1998). The Department has also narrowly construed the statute with respect to what constitutes a single family dwelling and has consistently defined such a dwelling to exclude condominiums or multi-unit housing.)♦



Agricultural Burning

By Joe Simmonds, Personal Property Program Manager

Engrossed Second Substitute House Bill (E2SHB) 1987, Chapter 40, Laws of 2000, provides a property tax exemption for equipment used as alternatives to the field burning of cereal grains and field and turf grass grown for seed. The effective date of this law was March 22, 2000.

The exemption is available only to farmers and others who make it possible to reduce field burning or to reduce the air emissions resulting from such burning. This includes persons involved in the manufacturing or marketing of straw or straw-based products that result in the reduction of field burning or the reduction of air emissions. Crops such as corn and alfalfa do not qualify for the exemption because the fields have not been traditionally burned. In addition, alfalfa is not a cereal grain, nor is it grass grown for seed. Cereal grains, field grass grown for seed, and turf grass grown for seed are types of crops that

have traditionally been burned. Cereal grains include wheat, oats, barley, and other grains grown in Washington, the fields of which are traditionally burned after harvest to eliminate straw, stubble, or residue.

Personal property eligible for the retail sales/use tax exemption is exempt from the property tax beginning with assessment year 2001 for taxes due in 2002. Items purchased prior to the effective date of this legislation are not eligible for the personal property exemption. Qualified items purchased after the effective date of this bill must be listed with the county assessor by April 30, 2001 and each year thereafter. Proof of eligibility of the exemption must be included with the listing to the assessor. Proof may be evidenced by providing a copy of the Department of Revenue's *Retail Sales Tax Exemption to Reduce Agricultural Burning* form (REV 27 0034) and the purchase invoice showing what was purchased and that sales tax was not imposed. The exemption will continue through assessment year 2005 for taxes collected in 2006.

Generally, structures eligible for the retail sales/use tax exemption are considered real property, not personal property, and are not exempt from property tax.

A Property Tax Advisory on the implementation will be forthcoming.

Any questions regarding this exemption may be forwarded to me at (360) 570-5880. ♦

Assessment of Cellular Tower Aggregators

By Steve Yergeau, Utility Valuation Program Manager

Federal deregulation of the communications industry has created an explosion of growth and competition in both the wireline and wireless business. Most recently, there has been a movement in the wireless segment of the industry for companies to acquire or build communication towers with the sole purpose of leasing space on the tower to various communication companies. This type of company is known as a "tower aggregator." Presently, there are several aggregator's doing business in this state under the names American Tower, SpectraSite, or Pinnacle. Because aggregator towers (or landlord/lessor) do not meet the current definition of a telephone company under RCW 84.12.200, these properties should be assessed locally. It is recommended that cellular communication towers should be valued using Schedule 12 of the Department's Personal Property Schedules and/or the use of Section 67 of the Marshall &



REMINDER



In anticipation of the WSACA Conference in Vancouver, we encourage counties to inform the DOR of any issues they would like discussed at the committee meetings. Having prior knowledge of what the counties would like to discuss in committee meetings helps the DOR bring the right people and also a more meaningful discussion to the conference in order to better serve the counties' needs. Please forward this information to David Saavedra at (360) 570-5861 or davids@dor.wa.gov. Thanks. ♦

Swift valuation guide. Should you have any questions on whether a particular tower should be centrally or locally assessed or have a question concerning the valuation of the towers, please feel free to call Jay Fletcher, the Department's Wireless Communications Appraiser, at (360) 570-5876 or you can e-mail him at jayf@dor.wa.gov. ♦

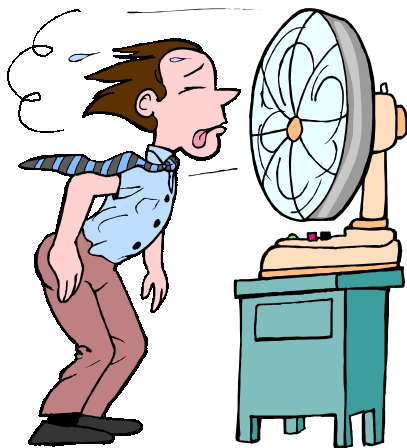
Ratio Sales Study Audit Program

By Deb Mandeville, Ratio Specialist

The Property Tax Division is currently in the second phase of the ratio sales study audit. This pilot program is in response to one of Alan Dornfest's recommendations in his June 1998 "Report on the Washington Ratio Study."

Mr. Dornfest's recommendation #10 stated in part, "The DOR should audit a small number of sales to ensure proper validation."

Two appraisers, Dave McKenzie of the Vancouver office, and Steve Stamey of the Kennewick office, along with myself, were appointed to coordinate the pilot program. Phase One of the program involved drawing five



invalidated sales from the 1998 ratio study from each of the 26 counties currently performing their own ratio study. DOR appraisal staff reviewed the invalidation codes and the sales information of each sale and reported their findings to the coordinators.

In Phase Two, the coordinators are scheduling meetings with staff in each of the counties to discuss the results of the audited sales. At this time, meetings have been completed in eight counties. The Department hopes to complete the visits by mid-September.

In Phase Three, we will be sending an overall summary of the findings to all of the counties. We anticipate the outcome of the program will ensure more uniformity statewide in the invalidation process of the ratio study.

If you have questions about the program, contact me at (360) 570-5863. ♦

Irrigation District Property Taxable

By Kathy Beith, Property Tax Levy Specialist

Is property owned by an Irrigation District subject to property tax? This question was recently posed to the Department of Revenue. The Washington State Constitution provides an exemption for, "property of the United States and of the state, counties, school districts and other municipal corporations." The exemption for these properties is also found in RCW 84.36.010. With respect to Irrigation Districts, the question is whether an Irrigation District is a municipal corporation for purposes of property taxation.

This Quarter's Reminders

August 1

Determinations on applications for property tax exemptions shall be completed by the Department of Revenue. (RCW 84.36.830)

August 14 (second Monday)

Last day for county officials to file estimated budgets with county auditor for the ensuring fiscal year. (RCW 36.40.010 and .030)

August 31 (On or before)

County assessors shall be informed by the Department of Revenue of properties determined to be exempt from the property tax. (RCW 84.36.835) New construction is placed on current assessment roll up to August 31 at the assessed valuation as of July 31 of that year. (RCW 36.21.070 through 36.21.090).

September & October (During the months of)

The Department of Revenue shall equalize taxes to be collected for state purposes. (RCW 84.48.080)

September 4 (Prior to first Monday in September)

The Department of Revenue shall annually determine the indicated ratio for each county (RCW 84.48.075).

September 5 (On or before first Tuesday)

Last day for county auditors to submit preliminary budgets to Boards of County Commissioners. (RCW 36.40.050)

September 15

County assessors shall furnish the Forest Tax Division of the Department of Revenue the composite property tax rate on classified and designated forest land in the county.

(continued)

In researching the issue, we found two court cases directly on point. Both cases are somewhat old – from 1928 – but both cases are still valid law. The first case focused on whether an Irrigation District falls within the constitutional exemption of property belonging to “other municipal corporations.” The court decided that the exemption language does not apply to all municipal corporations. The court further found that the exemption language specifically does not apply to Irrigation Districts because they are not municipal corporations in the “strict and proper sense” intended by the constitutional provision. So, property belonging to Irrigation Districts does not enjoy a constitutional exemption from property taxation.

That said, RCW 87.03.260 specifically exempts land owned by Irrigation Districts from property tax. The second court case we found considered the constitutionality of the statutory exemption. The court found that the statutory exemption is constitutional. The Legislature acted within its authority in exempting property of Irrigation Districts.

So, is property owned by an Irrigation District subject to property tax? Pursuant to RCW 87.03.260, property owned by an Irrigation District is *exempt* from property taxes. The exemption is a statutory exemption similar to the exemption of property owned by the county or the state and does not require an application process or Department of Revenue approval. ♦

*** ATTENTION READERS ***

Please share our newsletter and staff contact list with all your employees. There's something here for everyone! Thanks!!!

New Property Tax Advisory to be Issued

By David Saavedra, Program Coordinator

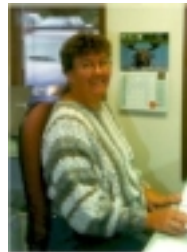
Look for our second Property Tax Advisory (PTA 2.0.2000) in your “inbox” soon. This advisory repeals several Property Tax Bulletins (PTBs) and provides a brief explanation as to why they were repealed. In all, this advisory repeals 20 out-of-date PTBs. Most of them have been either adopted into rules (WACs) or have been determined to no longer be needed. Look in the future for all the remaining PTBs to also be repealed. All remaining PTBs will either be adopted into WACs, determined to be out of date and obsolete, or be re-written and re-issued as a PTA. ♦

Property Tax Division Staff Changes

Administrative Section Says 'Goodbye' to a Colleague

By David Saavedra, Program Coordinator

Mary Hyman, an Office Assistant Senior for the past 10 years with the Property Tax Division, is retiring September 1st. Mary's primary responsibility during her tenure was



This Quarter's Reminders

Continued from Page 2

September (During the month of) Assessors' certification of assessed valuations to taxing districts. (RCW 84.48.130) Department of Revenue certifies its assessments of public utility operating properties to county assessors after final ratios have been certified. (RCW 84.12.370) ♦

entering the myriad of data associated with the utility assessments and ratio programs. Her expertise and knowledge in these areas will be missed as Mary and her husband take to the road in their brand new RV. An outdoor catered barbeque in her honor will be held during the lunch hour on August 17th at Lions Park in Olympia. ♦

New Happenings in the Personal Property Section

By Joe Simmonds, Personal Property Program Manager

John Duncan, a long-standing auditor with the Property Tax Division, retired July 31, 2000. It is with sadness that we say goodbye to John, yet it is with a huge amount of joy that we wish him well in all his future endeavors. John most recently has worked out of the Division's



Wenatchee office covering Chelan, Okanogan, Adams, Kittitas, Douglas, Grant, and sometimes Yakima and Klickitat Counties.

Rick Bell, who has come to us from the Compliance Division of the Department, and most recently held a rotation position with the Department's

Quality Improvement Program, has filled John's position. Rick has had the opportunity to train with John over the last three weeks, and I trust many of you have already met him. We wish Rick well in his new and challenging position.

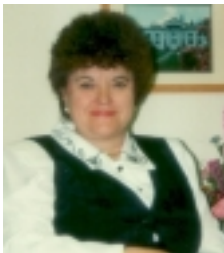
Pat McCabe, another long-standing employee of the Division, has moved into the Personal Property Auditor/Appraiser 5 position in our Kennewick office. This is an industrial and leadworker position created to perform these duties in all counties east of the mountains. Pat will be doing industrial audits in many of your counties and will also be reviewing with you the ratio work of the other auditors. Many of you have worked with Pat when he was in the Real Property Section, and I know he looks forward to working with you again in his new capacity. ♦



What's New in the Real Property Section

By Mark Maxwell, Real Property Program Manager

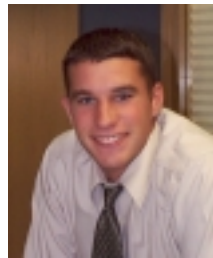
Christa Roy, Property Tax Appraiser, has announced her retirement effective the end of August after 21½ years of diligent service with DOR and 3½



years with the Pierce County Assessor's Office. Christa is looking forward to "heading south in my RV" in December with her husband, Dick, and German Boxer, "Hans." Christa's retirement party will be a potluck dinner and dance at the Columbian Hall in Lacey on Friday evening, August 25th. Call

Harold Smith at (360) 570-5870 for details. Good luck, Christa, we will miss you and don't get sunburned!!!

We are pleased to announce **Jaime Newcomb** as the newest member of the Property Tax Division team. Jaime joined the Real Property Section in July as part of the College Career Graduate program after recently graduating from the Washington State University (Go COUGS!!) Real Estate program. Jaime hails from Harrington, Washington (that's halfway between Spokane and Ritzville), and enjoys golf and playing and officiating basketball. His number in the fantastic, new Capitol Plaza office in Olympia is (360) 570-5898. Welcome aboard, Jaime!! ♦



where several speakers from the Department presented an array of modules related to BOE matters and the assessment process. Matt Coyle, member of the state Board of Tax Appeals, also spoke to the members and clerks regarding the challenges and issues faced by BOE members.

Over 175 county staff members, most from county assessor offices from throughout the state, took advantage of other training opportunities. In May, the Department provided a one-day *Ratio Seminar* in Moses Lake, where Deb Mandeville, Ratio Specialist with the Property Tax Division, provided the instruction with a focus on the annual state ratio study performed by the Department. Topics also included sales validation procedures and the 27 invalidation codes outlined in the ratio WAC rules, along with discussion on the criteria for the valid and invalid sales reports, the stratification reports, the BOE Certificate of Assessed Values, and Department appraisals and audits.

May and June also proved to be popular for the *Current Use Assessment and Administration* seminar. The Current Use Program was created by the Open Space Taxation Act under chapter 84.34 RCW. The two-day seminar, initially scheduled for Lacey and Moses Lake in May, proved to be in such great demand that a third offering was held in June in Tumwater with a total of 110 students for all three seminars. Instructors included myself, speakers from the Department's Legislation and Policy Division and Special Programs Division, along with a speaker from the King County Department of Natural Resources.

The seminar was offered for the first time in recent years and provided an overview of assessment practices for land classified in the Current Use Program including both the technical and administrative perspectives.



May & June Bring on a Busy Time for Training

By Pete Levine, Education Specialist

After a quiet start to the spring training calendar, May and June proved to be busy! The Department provided training in Moses Lake to over 60 Board of Equalization (BOE) members and clerks from throughout the state. Kathy Beith, BOE Specialist from the Property Tax Division, facilitated the two days,

Additionally, appropriate valuation techniques were covered for each classification as well as emphasis being given to the proper classification of land within the program. Each seminar provided lively discussion surrounding the complexities with property in the program.

A second offering on the 2000 calendar of the one-day *Basic Legal Description* course was held in Spokane in June where county staff members participated in a course jointly sponsored by the Property Tax Division and the Washington State Association of County Assessors. The course, attended by over 30 students, was once again well received by the students, as David Wallis from the Cowlitz County Assessor's Office traveled to Spokane to teach the course. A special 'thanks' to Dean Takko, Cowlitz County Assessor for allowing David to share his expertise on the subject. ♦

Looking ahead to more Training in 2000

Keep an eye out for a rescheduled *Uniform Standards of Professional Appraisal Practice* (USPAP) course, previously scheduled in Spokane. It was postponed due to low turnout in May, but will be rescheduled in the fall. The location has not been determined.

Also, just a reminder that this year's ***Fundamentals of the Assessor's Office, IAAO Courses 101, 102, and 300***, and the ***Introduction to Personal Property*** seminars will be offered in the Lacey/Olympia area this year – details to follow as it gets closer to each offering.

If you have questions related to specific upcoming training or would like to receive a copy of the education calendar, the primary contact person is Linda Cox, Education Coordinator, who

can be reached at (360) 570-5866 or by E-mail at LindaC@dor.wa.gov. ♦

CONFERENCE REPORTS

IAAO Personal Property Seminar 2000, May 2000, Nashville

By Neal R. Cook, MAI, Personal Property Specialist

Eight presentations were made over the two-day seminar by both industry and government representatives. Overall, the seminar focused on the direction of personal property assessment. The future of personal property assessment is at risk as long as definitions of terms are unclear and procedural inequities exist in the way taxpayers and administrators estimate values. Some 'national' questions are: Why should the taxpayer be permitted to use the market and income approaches when the administrator is required, by statute or time restraints, to use the cost approach? Should the taxpayer be required to show what is wrong with the valuation model, as opposed to the value of specific property?

Industry emphasized that counties don't typically recognize external (economic) obsolescence in the appraisal process.

Presentations were also made on the valuation of cell towers, amusement equipment, and computer equipment. In addition, the

depreciation of electric generation facilities and discovery of personal property were discussed. The seminar was valuable because many resources were provided and recommended including internet sites. A very complete valuation and audit program was outlined/discussed with sufficient material provided to participants so they could implement policies and procedures appropriate to their jurisdiction. Policies and procedures concerning discovery and assessment were of great interest to participants as was electronic filing. Contact me at (360) 570-5881 or NealC@dor.wa.gov, if you have questions or would like further information. ♦

Property Tax Representatives Attend Valuation 2000 Conference in July

By Mark Maxwell, Real Property Program Manager

Several Property Tax Division employees attended the inaugural Valuation 2000 Conference from July 10-13. Over 2,300 valuation experts from every U.S. state and more than 100

Upcoming Training Courses

September 11-15

Fundamentals of the Assessor's Office
Lacey -- \$50

September 26-27

Basic Levy Training
Moses Lake -- Free

September 28

Senior Levy Training
Moses Lake -- Free

For further information, contact Linda Cox, Education Coordinator, at (360) 570-5866 or by E-mail at LindaC@dor.wa.gov. ♦

July 2000

international participants from 19 countries met at the MGM Grand in Las Vegas to participate in the first-ever multidisciplinary valuation conference co-sponsored by the Appraisal Institute, American Society of Appraisers (ASA), and American Society of Farm Managers and Rural Appraisers (ASFMRA). More than 70 educational sessions were offered addressing current and topical issues for valuation experts in business valuation, real property, machinery and equipment specialties, personal property and appraisal review and management. Keynote speakers included George J. Mitchell, former U.S. Senate majority leader; Hjalma E. Johnson, President of the American Bankers Association; and Keith Jones, a representative of the Internal Revenue Service responsible for the IRS valuation policies. I thought the conference was great, especially those sessions relating to business, going-concern and intangible property valuation. ♦



New Location...

The Property Tax Division has a new physical location -- 1025 Union Avenue SE, Suite 200, Olympia, WA. Our mailing address will remain P. O. Box 47471, Olympia, WA 98504-7471. If you're in the area, stop by for a visit!



DEPARTMENT OF REVENUE PROPERTY TAX DIVISION

P. O. Box 47471
Olympia, Washington 98504-7471

DESCRIPTION OF PROGRAM OR SERVICE	CONTACT	PHONE # (360)	INTERNET E-MAIL
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Property Tax Program Coordinator	David Saavedra	570-5861	DAVIDS@dor.wa.gov
General Information – Receptionist FAX	Cathy Berry	570-5900 586-7602	
Specific Topics			
Accreditation	Pete Levine	570-5865	PETEL@dor.wa.gov
Ratio & Advisory Appraisals & Audits - Personal Property Prog. Manager - Personal Property Specialist - Real Property Program Manager	Joe Simmonds Neal Cook Mark Maxwell	570-5880 570-5881 570-5885	JOESI@dor.wa.gov NEALC@dor.wa.gov MARKMAX@dor.wa.gov
Appraiser Certification (DOL)	Cleotis Borner	753-1062	CBORNER@dol.wa.gov
Appraiser Testing	Linda Cox	570-5866	LINDAC@dor.wa.gov
Boards of Equalization	Kathy Beith	570-5864	KATHYB@dor.wa.gov
Current Use/Open Space Assessment	Pete Levine	570-5865	PETEL@dor.wa.gov
Education & Training for County Personnel	Linda Cox Pete Levine	570-5866 570-5865	LINDAC@dor.wa.gov PETEL@dor.wa.gov
Forest Tax General Information Classified/Designated Timber Land	Steve Vermillion	664-8432	STEVEV@dor.wa.gov
Forms	Pete Levine	570-5865	PETEL@dor.wa.gov
Legislation	Peri Maxey	570-5868	PERIM@dor.wa.gov
Levy Assistance	Kathy Beith	570-5864	KATHYB@dor.wa.gov
Mobile Homes	Neal Cook	470-5881	NEALC@dor.wa.gov
Nonprofit/Exempt Organizations	Harold Smith	570-5870	HAROLDS@dor.wa.gov
Railroad Leases	Jay Fletcher	570-5876	JAYF@dor.wa.gov
Ratio Study	Deb Mandeville	570-5863	DEBM@dor.wa.gov
Revaluation	Shawn Kyes	570-5862	SHAWNK@dor.wa.gov
Senior Citizens/Disabled Homeowners, Exemption/Deferral	Mary Skalicky	570-5867	MARYS@dor.wa.gov
Utilities - Certification of Utility Values to Counties - Code Area/Taxing District Boundaries & Maps - Public Utility Assessment - PUD Priviledge Tax	Ha Haynes Steve Yergeau " " " "	570-5879 570-5877 " "	HAH@dor.wa.gov STEVEY@dor.wa.gov " "